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November 10, 2003

Via Hand Delivery

Mr. Terry Bowling
Partner
PricewaterhouseCoopers
10 Tenth Street
Suite 1400
Atlanta, Georgia 30309

Via E-Mail and U.S. Mail

Ms. Sherry Herauf
Federal Communications Commission
445 12th Street, SW
Room 6-B411
Washington, DC 20554

Via E-Mail and U.S. Mail

Ms. Trish Green
Federal Communications Commission
445 12th Street, SW
Room C363
Washington, DC 20554

Re: BellSouth's Comments to Section 272 Agreed-Upon Procedures Engagement

Dear Mr. Bowling, Ms. Herauf, and Ms. Green

Attached is BellSouth's response to the results obtained in PricewaterhouseCooper's ("PwC") Report ("Report") related to the rules and regulations regarding Section 272 of the Telecommunications Act of 1996 ("the Act"). Pursuant to 47 C.F.R. § 53.213(b), BellSouth is sending this response to PwC, with a copy to the Joint Federal/State Oversight Team ("JOT"), to be included as part of the Final Report.

BellSouth believes that the Report provides the JOT solid evidence that BellSouth is in overall compliance with all rules and regulations associated with Section 272, both those specifically required by the Act and those promulgated by the Commission. This overall compliance is the result of BellSouth's diligent efforts in creating effective policies and procedures and implementing internal controls to ensure its compliance with all such rules and regulations. While BellSouth acknowledges that the Report identifies some procedural issues, none of these issues diminish BellSouth's overall compliance with Section 272 and all associated rules and regulations. Indeed, because the review performed by PwC was an agreed-upon procedures engagement, the Report lists all issues regardless of materiality. BellSouth's response provides additional information to specific issues where explanation and/or clarification is needed.

Sincerely,

Stephen L. Earnest

Stephen L. Earnest

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Enclosures
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Objective I.; Procedure 3: We inquired of management which entities perform operations, installation, and maintenance (OI&M) functions on facilities either owned by the Section 272 Affiliate, or leased from a third party by the Section 272 Affiliate. BSLD Management confirmed the following: "BellSouth Carrier Professional Services (BCPS) employees perform OI&M functions on BSLD network facilities and also managed and supervised vendors that performed OI&M functions for BSLD network facilities." We noted that BCPS performs OI&M as defined in 47 C.F.R. Section 53.203(a)(2), (3) (Section 53.203) and First Report and Order, paragraphs 15, 158, 163 (First Report and Order). We noted that Section 53.203 and the First Report and Order prohibit a BOC or BOC affiliate from performing OI&M functions on facilities either owned by the Section 272 Affiliate, or leased from a third party by the Section 272 Affiliate. We also noted that BST filed a petition for forbearance with the Federal Communications Commission related to the OI&M services mentioned above.	BellSouth has only one BOC, BellSouth Telecommunications, Inc. ("BST"), and only one entity that provides interLATA telecommunications services pursuant to Section 272 of the Act ("Section 272 Affiliate"), BellSouth Long Distance, Inc. ("BSLD"). BSLD leases transmission facilities and owns some switching facilities. Upon procuring these facilities, BSLD contracted with its vendors to perform the operations, installation, and maintenance ("OI&M") of the facilities. Additionally, BSLD employed a group of engineers to supervise and oversee the activities of the vendors. After a period of time, BSLD's management determined that the engineering group's functions could be expanded to include customer care. Moreover, BSLD determined that the type of professional services provided by the engineering group, including customer care, was a potentially profitable line of business to be offered to third parties. In order not to complicate the interLATA carrier operations and to monitor the provision and success of professional services and customer care operations more effectively, BellSouth determined that corporate governance would be better served by establishing and placing these operations in a new corporate entity. Accordingly, BellSouth created BellSouth Carrier Professional Services, Inc. ("BCPS") and these service groups within BSLD were moved to BCPS. In creating this separate entity, it was BellSouth's desire to maintain maximum regulatory and organizational flexibility. Therefore, although not a 272 affiliate as defined by the Telecommunications Act of 1996 ("the Act"), BCPS was designed to comply with all Section 272 requirements and is Section 272 compliant. Such compliance was deemed important to allow BCPS the flexibility to expand its support of BSLD or to allow it the ability to be merged back into BSLD in the event either action was deemed appropriate in the future. BellSouth requested, and the Joint Oversight Team agreed, to include BCPS in the scope of the engagement. The purpose of this request was to show that

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	BCPS was compliant with all Section 272 rules and remained completely separate from BST just as BLSD did. Under this structure, which was audited as part of this engagement, BCPS's provision of OI&M services to BSLD is the equivalent of one Section 272 Affiliate providing OI&M services to another Section 272 Affiliate. BellSouth's Petition for Forbearance requesting that the FCC forbear from its rules related to the provision of OI&M services is unrelated to BellSouth's corporate governance and structure. BellSouth has complied with the FCC's rules for separateness as demonstrated by the Report's findings regarding BSLD and BCPS. BellSouth filed its Petition because the rules are unnecessary and serve no purpose.
Objective I.; Procedure 6: From the detailed fixed asset listing for BSLD representing a population of 1,020 items, we selected a random sample of 94 transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located. We requested the title and/or other documents, which reveal ownership, for the sample selected. Management provided invoices as support for ownership and indicated the owner/lessee of the facility in which the asset is housed. We noted the following: Ownership: o For 42 of 94 items selected, we inspected the invoices and noted that the assets were billed BellSouth Carrier Professional Services with a BSLD billing address. o For 7 of the 94 items selected, all of which appeared on a single invoice, we inspected the invoices and noted that the assets were billed to BellSouth with a BSLD billing address. o For 2 of the 94 items selected, we inspected the invoices and noted that the assets were billed to BellSouth Telecommunications, Inc. with a BSLD billing address.	Of the 51 assets in the Ownership section that the Report notes had a company name listed that was different than that of BSLD, all were purchased and are owned by BSLD and all of the 51 invoices had a BSLD billing address. A company name other than BSLD being listed on the invoice is the result of the vendor incorrectly listing a company name other than BSLD's on the invoice and does not automatically indicate that the asset was purchased by an entity other than BSLD. BSLD purchases some of its assets from the same vendors that also sell assets to other BellSouth entities. The invoice name not agreeing with BSLD's is simply a clerical error made by these vendors. BSLD will attempt to have vendors correctly list BSLD as the purchaser in the future when it buys assets.

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Objective V/VI; Procedure 2(a): We requested and obtained BST's and BSLD's current written procedures for transactions with affiliates and compared these procedures with the FCC Rules and Regulations indicated as "standards" in the General Standards Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, as amended (the "GSP"). We noted the BellSouth Corporate Policy relating to affiliate transactions is documented in Executive Directive No. 008, which also references pertinent FCC regulations. Due to expanded regulatory requirements, BST, BSLD and BCPS have all developed separate, distinct and more stringent policies of their own. BSLD and BCPS utilize the same policy. We noted BST's written procedures had not been updated since 2001. We also noted the company's written procedures included the FCC Rules and Regulations indicated as standards above with the following exceptions: GSP Excerpt 1 – "Exception: Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When total aggregate annual value of the asset(s) does not reach or exceeds $500,000, the asset(s) shall be recorded at net book cost." At both BST and BSLD, we were unable to obtain a current written procedure related to the following FCC Rules and Regulations: GSP Excerpt 2 – "Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure. These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another."	There is no requirement, and BST has consciously chosen not to include the asset threshold exception in its high-level policies in order to avoid confusion among those employees involved in an individual asset transfer. Asset transfers can be requested from any department within an affiliate. Accordingly, consider the confusion for employees within a department whose only asset transfer for the year involved a $5,000 asset, however, that transfer caused the affiliate to exceed the $500,000 threshold. To help avoid this confusion, BellSouth does not broadcast this exception through its high-level policies but instead handles the threshold policy through a centralized service entity, BellSouth Affiliate Services Corporation ("BASC"). BASC is the control point for all asset transfers that involve BST. BASC keeps a "running total" of asset transfers by affiliate by category; and when the $500,000 benchmark is met, the estimated fair market value ("EFMV") requirement is applied to all subsequent transfers. BASC's procedures for ensuring that all assets transfers abide by the threshold rule are fully documented. Significantly, BST did not transfer any assets to BSLD or BCPS during the engagement period. There is no requirement that the specific wording noted by PwC be included in a written procedure. Exchange and exchange access services are but two of many tariff services covered by both the affiliate transaction rules and the 272 disclosure requirements. It is without question that the FCC's requirements are consistently stated throughout BellSouth's policies, procedures, and training related to affiliate transactions. For example: • Executive Directive #008, Affiliate Transactions: "All affiliate transactions with BST or its subsidiaries, or any

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	transactions that indirectly affect BST's expense or investment, must be recorded by BST according to the following hierarchy from the FCC affiliate transaction rules: 1. Tariff or a publicly-filed agreement filed with a state commission." Disclosure of these tariffed services is equally covered in BellSouth's policy and procedures for disclosing all transactions between the BOC and the Section 272 Affiliate. BellSouth's policy and procedures for this process are provided in "Process for Section 272 Transactions," which states that all BST/BSLD transactions must be conducted on an arm's length basis, reduced to writing, and made available for public inspection. The document outlines specific steps that must be followed for all transactions between these entities and clearly instructs both the contract and the Transaction Summary to be given to the BSLD Contract Manager – Business Implementation & Compliance and that individual will post these documents on the BellSouth Public Policy Transactions Internet site within 10 days of the transaction. These two specific tariff services are covered in the link entitled "Tariffed Services." This links the reader to the BellSouth tariffed services web site, which provides details of each tariff. In addition, and in an abundance of caution, the excerpt referenced has been included in the revised Section 272 Long Distance Training that is mandatory for all employees.
At both BST and BSLD, we were unable to obtain a current written procedure related to the following FCC Rules and Regulations: GSP Excerpt 3 – "Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate."	BellSouth does not have such a statement in its policies and procedures nor is it required to do so. When an asset is transferred from BST to any party, whether an affiliate or a third party, that asset is no longer on BST's books. Therefore, the impact of that asset is removed from all financial records as prescribed by GAAP.

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Objective V/VI; Procedure 3: We obtained a listing of 39 employees who are responsible for developing and recording affiliate transactions in the books of record of various affiliates of BellSouth Corporation...We judgmentally selected 8 employees and requested that they complete a questionnaire surrounding their awareness of FCC Rules and Regulations governing affiliate transactions...We interviewed these employees and noted that the individuals indicated they were aware of these rules and received training with respect to these rules with the following exceptions: One respondent indicated they were not responsible for the development or recording of affiliate transactions during the engagement period. They indicated they were responsible for Part 64 separations and non-affiliate transactions. In certain instances, resolution of an affiliate transaction issue requires Part 64 knowledge; therefore, this respondent was listed as a subject matter expert in our population. However, they are only listed as a subject matter expert as it relates to Part 64.... Another respondent indicated that they were not responsible for the development or recording of affiliate transactions during the engagement period. The respondent indicated that they reported income to BST as part of their job duties at one of the non-regulated affiliates. The respondent indicated that even though they were reporting affiliate income, their responsibilities did not require knowledge of affiliate transactions. The respondent indicated that they had not had affiliate transaction training and were not provided any affilate transaction reference material but that they were supervised by people who were responsible for affiliate transactions and that they knew who to contact should an issue of complex subject matter regarding affiliate transactions arise.	For the first noted respondent, as the Report states, this employee is a Part 64 expert and is not an affiliate transaction expert. It is necessary for this person to be included on the list the auditors used as their population for this test, however, because of the necessity to consult this person on Part 64 matters. BellSouth does not consider this finding an exception. For the second noted respondent, this particular coordinator has very limited duties regarding the affiliate transaction rules. The coordinator's job functions are limited to providing sales volume data to support one entity's consistent achievement of the FCC market rate test. Because the coordinator's job functions are limited to knowledge of the market rate test and the hurdles to meet that test, a thorough knowledge of the affiliate transaction rules is not necessary for this particular coordinator. Significantly, as noted in the Report, the coordinator's supervisor does have knowledge of the full rules. Accordingly, the subject matter expert contact list has been changed to reflect the supervisor as the coordinator to ensure that employees of this affiliate will have a more knowledgeable party to contact in the future.

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Objective V/VI; Procedure 5: We printed copies of the website postings for all 34 written agreements, including the corresponding 64 amendments.... We compared the rates, terms and conditions of services between the web posting and the written agreements provided...and noted differences in the following five contracts:	For four of these contracts, the differences resulted from incorrect effective dates listed on the website. BellSouth's policy is that the actual effective date is the date the second of the two parties signs the agreement. The incorrect effective dates on the web postings were caused by an effective date being included in the text of the contracts during the drafting process that was prior to the signature dates. Once these incorrect effective dates were discovered, they were corrected. Web postings for these four contracts were completed within 10 days of their correct effective dates. Additionally, contract-drafting procedures have been revised to record properly the effective date of all agreements. For the fifth contract, the auditors determined that portions of the contract were missing in the web posting. These missing portions consisted of a hyphen, some additional testing locations, and a statement that the number of PIC change orders to be processed may be increased upon mutual agreement of the parties. The missing portions resulted from the web posting being made based on an incorrect (incomplete) electronic version of the contract. Because this contract was executed in 2000, it predated BellSouth's ability to "scan" final copies of contracts into electronic documents as the Company does now. Upon discovery of this omission, BellSouth took corrective action to "scan" signed copies of this and other documents to ensure that web postings would precisely match the written agreements. The full agreement and its amendments were available at all times at BST for public inspection. Moreover, this contract was entered into prior to BellSouth obtaining approval to provide interLATA services pursuant to Section 271.
We noted 25 of the agreements were not posted to the website within the required ten-day timeframe. Management indicated that the following late postings were due to the contract/amendment not being presented to Contract Manager – BI&C on a timely basis. Posting was completed within 10 days of Contract Manager's receiving the contract/	In all of these instances, involving only two agreements, the agreements and amendments were not appropriately routed in accordance with the Company's established and publicized procedures. This resulted in the completed documents not being provided to the Contract Manager for posting on a timely basis. Almost half of the late

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amendment.	postings should have been made and were corrected more than a year prior to BellSouth receiving its first Section 271 approval. The remainder of the late postings were corrected during the engagement period. Two individuals were responsible for the delays. In the case of the Coordination Agreement, the procedural failing resulted in a posting delay of less than a month and this delay occurred more than a year prior to BellSouth receiving its first Section 271 approval. The employee responsible for the delay immediately received retraining and has complied fully with established procedures since the retraining. The 1999 Facility Use Agreement and all of the Facility Use Agreement Amendments associated with the 1997 Facilities Use Agreement also were delayed due to the individual responsible for the contracting of this testing activity not providing the Contract Manager the agreement/amendment in a timely manner. Since procedural failings occurred twice with this employee, his responsibilities were redefined and he is no longer authorized to engage in contract negotiations with BST. Despite these delays, the original Facility Use Agreement has been posted since 1997. This primary document established BST's willingness and obligation to provide testing activities on a nondiscriminatory basis at its lab in Birmingham, Alabama, in accordance with Section 272. The late posted amendments and agreement were secondary documents and simply built on the primary document by specifying the particular testing to be undertaken on a given project. In addition, BST has actively promoted and independently disseminated information regarding its testing services to non-affiliated carriers, including through an independent website (www.BTAC.com), since 1998. Any carrier interested in obtaining such services likely would have been aware of their availability independently of the public disclosure of BSLD's agreement. Finally, BellSouth notes there have been no allegations of harm resulting from these late postings. The auditors also identify certain agreements and amendments that were executed in 1997 and 1998 for which BellSouth was not able

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	to substantiate a precise posting date. There is no evidence that these agreements and amendments were not posted in a timely manner. Due to the timing of the agreements, personnel changes, and office relocations, such information could not be located. Based on printed copies of the web site that have been retained, however, BellSouth was able to show that all of these documents were present on the web site by late 1998. This means these agreements and amendments were posted for at least three and one half years prior to BellSouth receiving its first Section 271 approval.
Objective V/VI; Procedure 7: Testing of Interstate Charges: We multiplied the total time billed by the published rate in the Service Agreement to compute the total charges that would have been billed if no minimum incremental billing existed. We compared this total amount with the total amount actually billed for each of the invoices sampled, noting an aggregate difference of $1,832.44. This difference represents 0.66% of the total billings sampled, which totaled $276,115.69. Testing of Intrastate: We multiplied the total time billed for each product and state by the published rate in the Service Agreement to compute the total charges that would have been billed if no minimum incremental billing existed. We compared this total amount with the total amount with the total amount actually billed for each of the invoices sampled, noting an aggregate difference of $1,076.94. This difference represents 0.69% of the total billings sampled of $155,255.86. Testing of International Charges: For the entire population of 180 calls, we utilized the call details and billing information and calculated the rate per minute for each call. We compared the rates calculated to the rate published in the Service Agreement, noting numerous errors. We inquired of management who indicated that the international billing increments listed below in the Service Agreement were transposed. The Service Agreement calls for an initial increment	The testing methodology used by the auditors for both Interstate and Intrastate rates did not take into account the minimum billing increments that are required under the Corporate Communications Service Agreement. Had minimum billing increments been incorporated into the testing methodology, no difference between contractually stipulated rates and billings would have occurred. BSLD recognizes that the effort required to perform testing of Interstate and Intrastate rates using the contractually stipulated minimum billing increments would have resulted in a prohibitive work effort. Regarding the "numerous errors" in the calculation of the rate per minute on international calls, this finding was the result of a typographical error -- transposition in billing increments for international calling -- in the Service Agreement. Specifically, the Service Agreement indicated an initial minimum billing increment of 30 seconds with successive increments of 1 minute. The Service Agreement should have stated an initial billing increment for

<table>
<tr><th><u>Section 272 Audit Report</u></th><th><u>BellSouth Response</u></th></tr>
<tr><td>of 30 seconds with additional increments of 1 minute. Management indicated the initial increment should be 1 minute with additional increments of 30 seconds.

<u>Comparison Results</u>: For our sample of 118 invoices, we compared the amounts BST has recorded for Corporate Communications in its books to the amount BST has paid BSLD, noting the following:
...

• For 2 of the 118 invoices, BSLD management indicated the selected accounts were supposed to be transferred to other accounts but because of a keying error, the services were not moved until July 2003. We were unable to compare the invoiced amount specifically to the amount BST paid.

• For 2 of the 118 invoices BSLD management indicated the selected accounts were being disputed by BST and after research was completed the charges were moved to the correct accounts. We were unable to compare the invoiced amount to the amount BST paid.</td><td>international calls of 1 minute and successive billing increments of 30 seconds. A contract amendment was drafted and signed by the parties on September 16, 2003. Additionally, the amendment was posted to BellSouth's website within 10 days of amendment execution.

For these four invoices, two of the four contained keying errors and the other two were properly disputed by BST. The four original invoices, which were the four included in the Auditor's sample, were retracted and reissued. Accordingly, the original invoices were voided and corrected invoices were issued for the correct accounts. BST paid and recorded only the subsequently issued corrected invoices.</td></tr>
<tr><td><u>Objective VII; Procedure 3:</u>

We inspected the billed items and compared the rates charged to BSLD and with those charged to non-affiliates for the same services and noted the following:

For 7 of the 59 BSLD billed items, we noted different rates were charged to non-affiliates.

The following summarizes the 7 differences in rate and billing exceptions noted above:

• We noted that one non-affiliate customer was charged a</td><td>Each of these exceptions are explained as follows:

• The first listed exception was the result of comparing two different types of Local Transport usage rates. The item billed</td></tr>
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Usage fee with a rate and billing amount of \$.001177, which is approximately \$.001154 more than BSLD. BSLD purchased 1 unit and the non-affiliate purchased 23 units of this USOC. • We noted that one non-affiliate customer was charged a Monthly Recurring Charge with a rate of \$650 more than BSLD. • We noted that one non-affiliate customer was charged a Monthly Recurring Charge with a rate of \$600 more than BSLD. • We noted that one non-affiliate customer was charged a Monthly Recurring Charge with a rate of \$320 less than BSLD. • We noted that one non-affiliate customer was charged an Other Charge or Credit that was \$4.12 less than BSLD. • We noted that one non-affiliate customer was charged an Other Charge or Credit that was \$.09 more than BSLD. • We noted that one non-affiliate customer was charged an Other Charge or Credit that was \$10.20 less than BSLD.	to BSLD is Local Transport - Switched Common Transport Host to Remote, which has a rate of \$0.000023 in Section 6 of BellSouth's FCC Tariff 1. The item billed to the non-affiliate is Local Transport - Tandem Switching, which has a rate of \$0.001177 in Section 6 of BellSouth's FCC Tariff 1. • The second listed exception was the result of a difference in mileage quantities. A month-to-month rate of \$130/mile was correctly used to bill both BSLD and the non-affiliate. The difference in the amounts billed, however, was due to different mileage amounts -- BSLD: \$130/mile x 11miles = \$1430; non-affiliate: \$130/mile x 16miles = \$2080. • The third listed exception was the result of the different Transport Payment Plans chosen by the customers. BSLD chose Plan C (61 to 96 months) that has a monthly FCC Tariff rate of \$4200/mile. (*See* Section 23 of BellSouth's FCC Tariff 1.) The non-affiliate chose Plan A (12 to 36 months) that has a monthly FCC Tariff rate of \$4800/mile. (*See* Section 23 of BellSouth's FCC Tariff 1.) • The fourth listed exception was the result of only one of the customers choosing a special pricing plan, as well as a difference in miles billed. BSLD did not choose a special pricing plan and was correctly billed a monthly rate of \$400/mile for 6 miles, or \$2400. The non-affiliate chose Transport Payment Plan C (61 to 96 months) and was correctly billed a monthly rate of \$260/mile for 8 miles, or \$2080. (*See* Section 23 of BellSouth's FCC Tariff 1 for both rates.) • The fifth and sixth listed exceptions were the result of differences in quantities of the service, PIUs, and number of days the customers used the service during their billing periods (Fractional), not due to a difference in the rate billed. The amount billed to each customer for the service in the sampled items is calculated as: Amount billed = Rate x Quantity x Fractional x PIU. For one of the sampled items, the number of days used by the non-affiliate in the billing period was 28 (1/9/03 - 2/6/03), thus yielding a Fractional calculation of .9334 (28 days/30 days). The Amount billed to the non-affiliate was

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	$57.88 ($155 (rate) x 4 (quantity) x .9334 (fractional) x .10 (PIU)). The number of days BSLD used the service in the billing period was 6 (1/28/03 - 2/3/03), thus yielding Fractional calculation of 0.2 (6 days/30 days). The Amount billed to BSLD was $62 ($155 (rate) x 2 (quantity) x .2 (fractional) x 1 (PIU)). For the other sampled item, the number of days that the non-affiliate used the service in the billing period was 18 (9/24/02 - 10/12/02), thus yielding a Fractional calculation of .6 (18 days/30 days). The Amount billed to the non-affiliate was $68.03 ($139.98 (rate) x 1 (quantity) x .6 (fractional) x .81 (PIU)). BSLD used the service for 26 days (9/25/02 – 10/21/02) in the billing period, thus yielding a Fractional calculation of 0.8667 (26 days/30 days). The Amount billed to BSLD was $67.94 ($139.98 (rate) x 1 (quantity) x .8667 (fractional) x .56 (PIU)). (*See* Section 6 of BellSouth's FCC Tariff 1 for both rates.) • The seventh listed exception is the result of the differences in PIUs. Both customers were correctly billed using a non-recurring rate of $170. The difference in the amounts billed is as follows: The amount billed to each customer is calculated as: Rate x Quantity x PIU. The non-affiliate was billed $85 ($170 (rate) x 1 (quantity) x .50 (PIU)). BSLD was billed $95.20 ($170 (rate) x 1 (quantity) x .56 (PIU)). (*See* Section 23 of BellSouth's FCC Tariff 1 for both rates.)
Objective VII; Procedure 3 (con't): We requested and obtained from management the check copies, wire transfers and, if necessary, summaries of invoiced amounts for the items selected above. We compared the amounts paid to the amounts recorded above, noting the following 14 differences: • For 7 of the 14 differences noted above, no payment was received as noted below:	The one item was a bill for $73.19. Of the $73.19, $72.32 was credited to BSLD by BST as an adjustment, leaving a balance of $.87. This amount was included in a payment to BST by BSLD of $1.74 received by BST on 2/4/03.

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° One item was an instance where the current charges had not been paid • For 6 of the 14 differences noted above, BSLD paid BST less than the current charges: ° For one of the 6 items, BSLD paid BST 79.39 less than the current charge of $207.66	For the one item listed as BSLD paying $79.39 less than the current charges of $207.66, BellSouth can find no record of this difference. The sampled item is a service that was billed between $2600 and $3015 for each month within the engagement period and the bill was satisfied in full up through April 2003.
Objective VII; Procedure 3 (con't): We inspected the billed items and compared the rates charged to BCPS and with those charges to non-affiliates for the same services and noted the following: For 10 of the 100 BCPS billed items, we noted that the non-affiliates were charged a rate that was $1.10 more than BCPS.	In each of the ten occurrences cited in the Report as having billed BCPS a rate different than what was billed a non-affiliate, the service, identified by the universal service order code ("USOC") was a standard individual business line ("1FB") in the State of Georgia. The tariffed rate for a 1FB in Georgia is a function of the rate group associated with the exchange in which the service is provided. In each of the ten cited occurrences noting a difference in the Report, the BCPS service was part of the Atlanta Exchange (Rate Group 12) while the non-affiliate service was in the Cumming Exchange (Rate Group 12A). Per the General Subscriber Service Tariff, the applicable rate for an individual business line (1FB) for each of these rate groups is as follows: 1FB Rate Group 12 $48.30 GSST Section A3.7.2 1FB Rate Group 12A $49.40 GSST Section A3.10.3 Therefore, while the rates billed to BCPS and to the non-affiliate are different, they were each billed the correct rate. If a non-affiliate service from Rate Group 12 had been selected to compare to BCPS, the rates would have been exactly the same.

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Objective VII; Procedure 6: a) For selected locations, we listened to BST customer service representatives who attempted to market the Section 272 affiliate's interLATA service to callers requesting to establish new local telephone service, or move an existing local telephone service. We accepted the first 140 inbound calls that met these criteria. For the first 140 inbound callers requesting new local telephone service, or movement of existing local telephone service, to whom the sales representatives attempted to market the Section 272 affiliate's interLATA service, we listened to the conversations between customer service representatives and the inbound callers. Specifically, we noted whether the customer service representative steered the customer toward the Section 272 affiliate, whether the customer was informed of a list of other providers, and whether the customer was informed of their right to choose a provider. For the purposes of this test, a customer was considered to be steered toward the 272 affiliate if the customer service representative did not ensure the caller was appropriately informed of their right to choose a long distance provider in a timely manner during the call.	**Consumer Services** Of the 8 calls where exceptions were noted, five were for transfers of service. In each case the customer requested and received the same service at the new location that he or she was receiving at the old location. BellSouth's Consumer Services representatives have scripts to follow for transfers of service, which include disclosure of the customer's right to select from a list of service providers. BellSouth Consumer Services will conduct refresher script training sessions specifically targeted to transfer of service calls, to ensure that scripts are used even when the customer already subscribes to a long distance carrier. Finally, BellSouth's Consumer Services organization has a very comprehensive monitoring plan in place to identify instances where customer service representatives fail to use the Equal Access script or where the customer service representatives "steer" a customer to BellSouth Long Distance. Current controls include the following: • Regularly scheduled Consumer Performance Analysis Team ("CPAT") monitoring. Regularly scheduled Coach monitoring – 25 calls per week on their own group. • Regularly scheduled intra-office monitoring by Coaches and Center Leader. • Regularly scheduled cross-unit monitoring by Coaches and Center Leaders. • Joint observations conducted with CPAT, Coaches and Center Leaders as calibration sessions to ensure consistency across organization. • Triad observations conducted by Center Leader and Coach to see how Coach observes and scores calls. • Coach monitoring results communicated nightly to Director. • Initial Training – 8 weeks of training prior to beginning

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	work in the call center. • Fast Start – 2 weeks of intensely monitored, incubation training, immediately following Initial Training, and immediately prior to being placed in a team in the call center. • Continuation training via various communications venues: Section meetings with Coaches, DCOM (immediately accessible when the rep enters ORBIT – the online resource document), *No Boundaries* (a weekly organizational news publication), Job Aids, Team/Section Meetings, 272 Long Distance training conducted annually. • Reps receive semi-annual "report card" feedback, which includes Section 272 compliance. • Vendor training.
	Small Business Services BellSouth Small Business Services works diligently to comply with all regulations, laws, and rules applicable to its business. To that end, Small Business Services established mandatory annual employee compliance training and mandates that each employee adhere to all requirements. This includes selling scenario scripts that address key expectations for selling services on behalf of BSLD. BellSouth notes that its Small Business Services organization has a comprehensive compliance plan in place with numerous business controls. Current controls include the following: • Regularly scheduled side-by-side observations for compliance observations • Regularly scheduled triads with manager, team manager and representative on side-by-sides to ensure customer contact meets compliance regulations • 13-week initial training including compliance before sales representatives are allowed to contact customers • Minimum 30-day incubation period where there is close

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	monitoring and coaching • Continuation training through various communication mediums • On-line access to compliance requirements housed in ORBIT Additionally, BellSouth Small Business Services will take the Report as an opportunity to make process improvements. Specifically, BellSouth Small Business Services is implementing several additional business controls, including automating visual display of scripting for compliance requirements, implementing remote compliance monitoring, implementing additionally compliance training, and implementing stronger disciplinary action for failure to comply with the rules and regulations. The details of these controls are as follows: **Automation** BellSouth Small Business Services is implementing an automated visual display of the FCC mandated BSLD scripts in their ordering system, ROS. This enhancement will be in the November 2003 ROS system release. When Small Business Service Representatives open the intraLATA and/or interLATA folders in ROS, the new window will display the appropriate script based on order type or state, or both, before the Representative can select a carrier. This additional screen will reinforce the need to read the appropriate script. **Training** Current training will be enhanced to reinforce Section 272 guidelines and the associated scripts. Moreover, continuation-training sessions will become mandatory for all the appropriate Small Business Services representatives. Implementation of the new "Mandatory Equal Access Scripts" window will be covered in ROS rollout sessions and reinforced in ROS meetings. This enhanced training regimen will begin in November 2003.

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	Monitoring BellSouth Small Business Services is implementing a remote observation process as a tool for compliance monitoring and tracking that will be implemented the first week of November 2003. The observation process will provide a mechanism for determining non-compliance and identifying improvement opportunities **Discipline** As of December 2003, BellSouth Small Business Services is adding language for failure to comply with all required disclosure statements such as the 272 rules to its Professional Performance Standards. The Professional Standards document is covered for newly hired Sales Associates and re-covered with all employees as changes are made to the standards. Disciplinary action is taken for non-compliance. These additions and the management guidelines for non-compliance will be covered with managers.
<u>**Objective VIII; Procedure 4:**</u> **Firm Order Confirmation Timeliness** In the state of Florida, for the product DS3 Non-Optical during March and for the product Feature Group D during January and February, the performance measurement data indicates that the Section 272 Affiliate received more timely firm order confirmations than non-affiliates. In the state of Georgia, for the product DS3 Non-Optical, during March, the performance measurement data indicates that the Section 272 Affiliate received more timely firm order confirmations than non-affiliates.	Analysis of this issue revealed that the non-affiliate data included ASRs that should have been Project Managed, however, were not because they did not have a Project ID. An ASR must have a Project ID in order to signify that it should be Project Managed. This resulted in these ASRs being incorrectly incorporated into the measure, which caused an inflated non-affiliate measurement. Project Managed ASRs are excluded from this measure, as outlined in the SQM, because of the special handling requirements that are necessary prior to the Firm Order Commitment ("FOC"). BellSouth is re-emphasizing with Service Representatives and external customers that any ASR that meets the criteria for Project Management must be submitted with a Project ID.

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	In addition, ASRs were identified where a subsequent FOC date, rather than the initial FOC date, was used to calculate the FOC interval, further inflating the measurement. BellSouth has modified its process for extracting the FOC data so that such data is extracted at 3-hour intervals. This extraction will capture the initial FOC of an ASR and will not recalculate the FOC interval for subsequent FOC request.
Objective VIII; Procedure 5: **Firm Order Confirmation (FOC) Timeliness** We noted that when calculating the FOC interval, BST excludes weekends, but only until the interval becomes 1 day. Therefore, the exclusion of weekend days would not cause an interval to be 0 days. For example, a service request on Friday at 4pm that had a FOC sent on the following Monday would be given a FOC interval of 1. This is inconsistent with the application of other calculation criteria applied by BST that allows for zero day intervals. We calculated the metric allowing for zero day intervals, as stated in the SQM, and noted the following difference" **Product/Affiliate Group/Bucket** / **BST Vol.** / **PwC Vol.** / **BST Result** / **Pwc Result** DS1/Non-Aff. Average FOC Interval / 573 / 573 / 1.39 days / 1.38 days	**Firm Order Confirmation (FOC) Timeliness** Regarding the calculation of FOC Timeliness intervals when ASRs are received on Friday after 4:00p.m, BellSouth has issued Requirement RQ4707 to correct this calculation.

Product/Affiliate Group/Bucket	BST Vol.	PwC Vol.	BST Result	Pwc Result
DS1/Non-Aff. Average FOC Interval	573	573	1.39 days	1.38 days

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Trouble Report Rate and Average Repair Interval Access service types do not include Unbundled Network Elements (UNE) and CLEC records for local service and, therefore, should be excluded from access metric calculations. We note that BST did not apply the appropriate criteria to exclude these records from the access calculations for the Trouble Report and Average Interval measures. We noted that BST excluded records with the Network Channel and Network Channel Interface (NC/NCI) code of "LX/04FCF.X" from the Trouble Report and Average Repair Interval metric calculations. The NC/NCI code "LX/04FCF.X" represents an access product and should be included in the calculation. **Average PIC Change Interval** We noted that the following business rules contained in the SQM for the Average PIC Change Interval measure were not specifically applied by BST to the metric calculations: Exclude "PIC Change Requests processed manually"	**Trouble Report Rate and Average Repair Interval** Regarding the exclusion of UNE and CLEC records for local service from the Trouble Report Rate and Average Repair Interval measure, BellSouth initiated and implemented RQ2799 with the 4.3.03 release (March, 2003) to properly exclude these records. The inclusion of these records in the data did not have any impact on the metrics calculations. Regarding the exclusion of the NC/NCI code "LX/04FCF.X" from the Trouble Report Rate and Average Repair Interval metric calculation, BellSouth initiated and implemented RQ3673 with the 4.3.07 release (July, 2003) to properly include these records in the measures. The exclusion of these records from the data did not have any impact on the metrics calculations. **Average PIC Change Interval** Regarding the inclusion of manually processed PIC change requests, BellSouth has requested a change to the SQM to reflect that these records are included in the metric calculation.
Objective X; Procedure 3: We requested and obtained from BST management a reconciliation of amounts in its books for local exchange services provided to BCPS for the period from June 1, 2002 through May 23, 2003. We noted that BST recorded approximately $13,270 for local exchange services for the period. We also obtained information from BCPS management indicating they had recorded as expense and remitted approximately $13,250 to BST for local exchange services for the period, resulting in an unidentified difference of $20.	This difference was due primarily to one invoice billed in July 2002. The amount billed was $133.10, but a beginning credit balance for the month left a balance due of $17.31. This amount remained unpaid as of the final bill issued in November 2002. The $17.31 was written off in January 2003.